

Hello Neighbor,

This email is from the group Water For Pine Strawberry. We will be sending out an email after each of the PSWID meetings with a summary of what the board did, additional facts that are relevant to what went on, and some commentary. Please forward this email to friends and neighbors that are interested in the local water issues. If you would like to be added to or removed from the list for these emails, please reply to WaterForPineStrawberry@hotmail.com. Emails on earlier meetings are available on our website: www.WaterForPineStrawberry.com.

Our website was hacked on Thursday or Friday. We have restored it. Hopefully it didn't cause anyone any problems.

In the Friday July 18th Payson Roundup a group of people had a full page ad published which basically asked Brooke to not resist efforts to purchase the water companies, listed a lot of complaints about Brooke's management of the water companies, asked the ACC to revoke Brooke's Certificate of Convenience and Necessity (CC&N), and asked the Arizona Department of Environmental Quality to enforce a 2004 letter that had been sent to Brooke.

- It is ironic that the people who worked so hard to prevent Brooke and the last PSWID board from solving the water problem with the K2 well then turn around and complain that Brooke hasn't provided new water supplies.
- There are several pictures which accompany the ad. These pictures were also in the report that CVL provided. Why was the report provided to organizations outside of the board prior to its presentation to the rest of the public?
- One picture shows what they have labeled as an exposed pipe. This is a drainage culvert, not a water pipe hooked to the system.

We have been working through what all of this is going to cost and the impact that it will have on water rates. Because it is such a large topic, we will be sending several additional emails over the coming weeks. These emails will address:

- Options for arriving at a two well solution and the cost of each option
- Revenue and operations cost for the water district
- Cost of loan and the resulting rate impacts. Water rates in Strawberry are currently much lower than those in Pine. We will also look at how water rates might be adjusted to be the same across both communities.
- Incorporation of other DWIDs into PSWID. Some of the small DWIDs in the area, such as Pine Creek Canyon DWID and Solitude Trails DWID, are likely to ask to be annexed into PSWID. We will look at the motivations for that and the impacts that can have.

July 17, 2008 PSWID Meeting

Next regular PSWID Meeting: Thursday August 21, 2008 7:00 PM at the Pine Cultural Center

- The board did not schedule a special meeting, but it is likely that there will be one between now and the regular August meeting

1. Coe and Van Loo (CVL) Presentation

- Bottom Line: The valuation that CVL has done doesn't reflect the final price that it will take to buy the water companies, but is a starting point for the condemnation process. When anything is bought, be it a car or a water company, the buyer focuses on the negatives and the seller focuses on the positives to justify their price. The next step in determining the value of the water companies will be an audit which will provide a much clearer picture of the value. Even with the audit the buyer and seller will come up with different values. The difference in those numbers will be resolved by the courts.
- I have asked for a copy of the presentation and the report and will make them available on the website as soon as I receive them.
- Mr. Victor Khoury of CVL, Mr. Ken Knickerbocker of CVL, and Mr. Dan Jackson of Economists.com provided the presentation.
- Several of the valuation numbers provided by CVL during the presentation were different from the numbers that were provided in the recommendation letter to the board. The Economists.com representatives stated that this was because they had adjusted the numbers to reflect the 2007 ACC report that they had recently received.
 - Book Value: \$643,335 -> \$497,496
 - Market Value per Connection -> \$8,543,557 -> \$7,927,145
- Mr. Jackson talked a lot about what the water companies are worth as a business. He emphasized the lack of growth in customers and revenue and that both companies have lost money over the last five years.
 - There is a meter moratorium so it is little wonder that there has been no growth in customers and revenue. Strawberry hasn't had a rate increase since 2000 and Pine since 2004. With limits on how much water is available to sell, it isn't unexpected that there would be no revenue growth.
 - Not sure that it is legitimate to price it as a business. Since it is a regulated utility it doesn't have the ability to set its own prices or make investments the way other companies do. Mr. Pugel has been quoted as saying that the water companies would be a terrible investment when asked if he would consider buying them. That is why the community has been maneuvered into taking on that burden.
- Mr. Jackson spoke about why the valuation done in 2003 was so much higher than the current valuation. He said that the 2003 valuation was very conservative and gave Brooke the benefit of the doubt. The current valuation included an inspection tour where they observed facilities over the fence or from the property line and does not give Brooke the benefit of the doubt.
 - Both valuations used the same sources of data
 - 2003 valuation did not include the Magnolia pipeline
 - 2003: Asset Valuation Method: **\$3,300,000**; Cash Flow Method: **\$3,000,000**; Subscriber Value Method: **\$4,300,000**
 - Updating the 2003 Asset Valuation Method (which was based on 2002 numbers) to 2006 numbers: **\$4,657,000**

- 2008: Asset Valuation Method: **\$2,172,000** [-34.2%]; Cash Flow Method: **\$2,612,000** [-12.9%]; Subscriber Value Method: **\$7,927,000** [+84.3%]
- From what we can tell the change in the Asset Valuation is driven by changes in the average useful life. The average life for the assets is much shorter in the 2008 valuation. That increases the depreciation rate and lowers the overall value. Mr. Jackson said that they used the values used by the ACC, but he did not answer the question as to why they were different from the 2003 numbers.
- Water companies are typically valued using the Asset Valuation or Subscriber Value methods. Mr. Jackson spent a lot of time explaining why the per subscriber value came out so high. This approach takes the price that a water company sold for and divides it by the number of rate payers to get a per subscriber value. They looked at all of the sales in Arizona back to the late nineties. Then all of those values were averaged to come out with an average per subscriber value of \$2557. Mr. Jackson pointed out that there are four systems that sold for very high prices and that they are making average higher than it should be.
 - I don't have the specific numbers, but based on the chart that they presented, if you threw out the four highest and four lowest values it would average out to about \$2000 per subscriber. Star Valley has offered Brooke about \$1333 per subscriber for their water system. The PSWID's offer is \$706 per subscriber.
- Mr. Jackson talked about the process of getting this at-a-distance valuation and then a true appraisal where there is physical access to all the assets and the company's books. They spoke of these points as where the board could "walk away" if the cost was too high. It isn't clear that this board would consider any price as too high for the community. During the Q&A session that followed the presentation, it became clear that the board intends to condemn the water companies and take immediate possession. The district would have to post a bond for an amount of money set by a judge and then the price of the water companies would be determined at a trial. Once the district takes possession, they have written a blank check for whatever price is determined. There is no ability to walk away at that point.
- In the Q&A portion it was asked how the infrastructure could be so bad if the water loss was only 7% in 2007, which is very good for a small water system. Mr. Haney interjected that Arizona's average is 4%. He later said that Mesa's water company (where he is employed) has a loss of 8%. The consultants did not reply to the question.
 - The 4% number does not sound reasonable. National average is 15%. If a city the size of Mesa is at 8%, then that means an awful lot of other water companies would have to be close to zero in order for the average to be 4%.
 - So if PWCo losses less water than Mesa, does that mean that Mesa has terrible infrastructure too? Or does it mean that the infrastructure isn't as decrepit as it is being made out to be?
 - Mr. Greer later repeated the myth that "someone had determined that it is 40%". That doesn't pass the make sense test. That would represent a huge

loss of revenue that Brooke would have every incentive to correct and whomever this “someone” is would have to have access to Brooke’s internal metering data in order to come up with a legitimate number.

2. Hiring Interim Manager for the District

- Discussion of the need to hire an interim manager in anticipation of acquiring control of the water companies in January
- Was tabled pending Mr. Haney providing more detail on duties, etc.
- Mr. Haney indicated that the interim manager would be in charge of hiring the permanent manager, and would not be eligible to hold that position.

3. Hiring Interim Contract Operator

- Discussion on hiring a company to operate the water companies.
- Mr. Haney noted that there would need to be an extensive contract activity to spell out responsibilities
- Representatives of Quality Water were in attendance at the meeting

4. Authorization of CVL Tasks 2 and 3

- Board voted to authorize CVL to proceed with Task 2 (determine what improvements need to be made to the system) and Task 3 (determine operations and maintenance costs).

5. Call to Public For Non-Agenda Items

- I asked that since both the water companies and the Milk Ranch well are required for a successful water district what the board’s plans are with taking action to purchase the Milk Ranch well. I also asked what the board’s plans are to obtain legal counsel for Milk Ranch related issues since it would be improper for Mr. Gliege to take part on either side. Mr. Gliege immediately interjected that the board could not address those questions because they weren’t on the agenda.
- Some discussion ensued as to how questions could make it onto the agenda. Apparently if you get a board member interested enough in your question, they can suggest having it added to the agenda.

6. Finance Committee Report

- Mr. Calderon reported that two members of the finance committee were searching for lenders. Mr. Calderon stated that the board would probably need to hire a CPA to prepare a financial statement for the loan.

Water For Pine Strawberry is a group of residents who are concerned about the communities water issues and how they can best be resolved. Visit our web site, www.WaterForPineStrawberry.com, for more information. The website for PSWID is www.pswid.org.

Clarifications can be submitted by anyone who is explicitly named, implicitly identifiable, or a board member to items in this email. Clarifications will be posted on our website. We reserve the right to post a response. Clarifications must deal with the topics discussed in the email that relate to the individual or the board. They must be in family friendly language and be non-abusive. When the clarification is accepted, it will be posted to the website and notice of that posting will be added to the next email.